

ROOTSTOWN LOCAL SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

Board of Education
Rootstown Local School District
4140 State Route 44
Rootstown, Ohio 44272

We have reviewed the *Independent Auditor's Report* of the Rootstown Local School District, Portage County, prepared by Varney, Fink & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Rootstown Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 4, 2006

This Page is Intentionally Left Blank.

**ROOTSTOWN LOCAL SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

TABLE OF CONTENTS

<i>INDEPENDENT AUDITOR'S REPORT</i>	1	
<i>Management's Discussion and Analysis</i>	3	
 <i>BASIC FINANCIAL STATEMENTS</i>		
Government-wide Financial Statements:		
Statement of Net Assets	10	
Statement of Activities	11	
Fund Financial Statements:		
Balance Sheet – Governmental Funds	12	
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	13	
Statement of Revenues, Expenditures and Changes in Fund Balances –Governmental Funds	14	
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities	15	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual – General Fund	16	
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	18	
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	19	
Notes to the Basic Financial Statements	21	
 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>		43

This Page is Intentionally Left Blank.

INDEPENDENT AUDITOR'S REPORT

Board of Education
Rootstown Local School District
4140 State Route 44
Rootstown, OH 44272

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Rootstown Local School District (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District, as of June 30, 2005 and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2005, the District implemented Governmental Accounting Standards Board Technical Bulletin 2004-02 "Recognition of Pension and other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employees."

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding

INDEPENDENT AUDITOR'S REPORT (continued)

the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

May 8, 2006

Rootstown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The discussion and analysis of the Rootstown Local School District's (the School District's) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key Financial Highlights for 2005 are as follows:

- General Revenues accounted for \$9.4 million in revenue or 91% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for approximately \$983,000 or 9% of total revenues of \$10.4 million.
- Total program expenses were \$11 million in Governmental Activities.
- In total, net assets of Governmental Activities decreased approximately \$683,000 which represents a 43% decrease from 2004.
- Outstanding bonded debt decreased from \$255,000 to \$175,000 through the payment of bond principal.
- New long-term tax anticipation notes were issued June 30, 2005 for \$750,000 for the emergency requirements of the School District. The notes mature 2010.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* excluding fiduciary funds using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District activities are listed as Governmental:

Rootstown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

- Governmental Activities – All of the School District's programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation, food service operation and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental funds are the general fund and permanent improvement.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and permanent improvement capital projects fund, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The School District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The governmental fund financial statements begin on page 12.

Fiduciary Funds - These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting for the fiduciary funds is much like that used to proprietary funds. The fiduciary fund financial statements begin on page 18.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 21.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Rootstown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 1 provides a summary of the School District's net assets for 2005 compared to 2004:

(Table 1)
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current and Other Assets	\$ 5,557,616	\$ 5,328,795
Capital Assets	1,900,835	2,115,868
Total Assets	7,458,451	7,444,663
Liabilities		
Long-Term Liabilities	1,414,903	687,047
Other Liabilities	5,130,274	5,161,386
Total Liabilities	6,545,177	5,848,433
Net Assets		
Invested in Capital		
Assets Net of Debt	1,725,835	1,860,868
Restricted	614,703	360,787
Unrestricted (Deficit)	(1,427,264)	(625,425)
Total Net Assets	\$ 913,274	\$ 1,596,230

There were no significant changes in assets as compared to the prior year. The major factor which contributed to the overall decrease in net assets of approximately \$.7 million was from the increase in liabilities from the issuance of the tax anticipation notes during the year. These notes will be retired with tax collections from a 5.9 mill emergency tax levy based by the citizenry of the School District in February 2010.

Rootstown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 2 shows the changes in net assets for fiscal year 2005 as compared to fiscal year 2004.

(Table 2)
Changes in Net Assets

	Governmental Activities	
	2005	2004
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 474,075	\$ 485,262
Operating Grants	509,610	419,899
<i>General Revenue:</i>		
Property Taxes	4,282,789	3,956,082
Grants and Entitlements	5,028,488	4,772,914
Other	105,338	95,143
<i>Total Revenues</i>	10,400,300	9,729,300
Program Expenses		
Instruction	6,656,100	6,528,206
Support Services	3,597,184	3,383,688
Operation of Non-Instructional	37,833	73,757
Extracurricular Activities	406,038	387,763
Interest and Fiscal Charges	11,338	15,497
Food Services	359,161	349,389
Uniform School Supplies	15,602	15,592
<i>Total Expenses</i>	11,083,256	10,753,892
Increase (Decrease) in Net Assets	\$ (682,956)	\$ (1,024,592)

There were no individually significant changes in program expenses as compared to the prior year. Property tax revenues increased over \$300,000 as compared to 2004, which was a result of increased collections and the increase in revenue recognized from property taxes available as an advance from the Portage County Auditor's office. See Note 2D of the basic financial statements for a more detailed discussion of revenue recognition of property taxes available as an advance.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental activity had total revenues of \$10.4 million and expenses of nearly \$11.1 million.

Rootstown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

(Table 3)
Governmental Activities

	2005		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 6,656,100	\$ 6,227,667	\$ 6,528,206	\$ 6,117,572
Support Services:				
Pupil and Instructional Staff	730,912	711,610	696,686	676,014
Board of Education, Administration				
Fiscal and Business	1,224,164	1,207,279	1,132,508	1,114,070
Operation and Maintenance of Plant	951,225	934,266	896,821	895,362
Pupil Transportation and Central	690,883	690,883	657,673	657,673
Operation of Non-Instructional Services	37,833	20,860	73,757	33,092
Extracurricular Activities	406,038	297,722	387,763	299,471
Interest Charges	11,338	11,338	15,497	15,497
Food Service Operations	359,161	537	349,389	43,038
Uniform Supplies	15,602	(2,591)	15,592	(3,058)
Total	<u>\$ 11,083,256</u>	<u>\$ 10,099,571</u>	<u>\$ 10,753,892</u>	<u>\$ 9,848,731</u>

Instruction and Student Support Services comprise 67% of governmental program expenses. Pupil transportation and the operation/maintenance of plant account for 15% of governmental program expenses.

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is by far the primary support for Rootstown Local School District students.

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$10.4 million and expenditures of \$10.9 million. The net change in fund balance for the year was most significant in the permanent improvement capital project fund, with an increase of \$171,000. The use of permanent improvement monies was avoided in order to increase the fund for purposes of building a bus garage.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2005, there were minor changes to the School District's total general fund budget. The School District uses site-based budgeting and the budgeting system which are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the final budget basis revenue was approximately \$8.7 million, \$.7 million over the original budget estimates of approximately \$8 million. The primary cause of this increase was due to an increase tax collections and collection of student tuition.

Rootstown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Final appropriations of approximately \$9.7 million were \$.4 million higher than the approximately \$9.3 million original budget and \$.2 million below actual fiscal year 2005 expenditures. There were no individually significant programs provided by the School District that were the cause to these reasonable variances.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$1.9 million invested in land, buildings, equipment, library, and textbooks. Table 4 shows fiscal year 2005 balances compared with 2004 net of depreciation.

(Table 4)
Capital Assets at June 30 (Net of Depreciation)

	Governmental Activities	
	2005	2004
Land	\$ 779,700	\$ 779,700
Land Improvements	243,624	261,369
Buildings and Improvements	504,704	544,312
Furniture and Equipment	163,998	223,872
Vehicles	208,809	277,474
Library and Text Books	0	29,141
Totals	\$ 1,900,835	\$ 2,115,868

The approximately \$215,033 decrease in capital assets was attributable to depreciation expense exceeding additional purchases. See the notes to the basic financial statement for more detail on the capital assets of the School District.

Debt

At June 30, 2005, the School District had \$175,000 in bonds outstanding with \$85,000 due within one year. During fiscal year 2005, \$80,000 of general obligation bonds were retired. The School District issued a total of \$750,000 in tax anticipation notes for fiscal year 2005. Table 5 summarizes debt outstanding.

(Table 5)
Outstanding Debt, at June 30

	2005	2004
General Obligation Bonds:		
1996 Energy Conservation	\$ 175,000	\$ 255,000
2005 Tax Anticipation Note	750,000	0
Totals	\$ 925,000	\$ 255,000

Rootstown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The proceeds of the 1996 bond issues were utilized for the replacement of elementary and middle school windows. The proceeds of the 2005 tax anticipation note were utilized for the emergency requirements of the School District. See the notes to the basic financial statement for more detail on the debt of the School District

Current Issues

It is evident that the Rootstown Local School District relies heavily on its property owners for support. In today's economical climate, this presents a problem to the School District as well as the local taxpayer. Until there is a change in the funding structure from the state, this will continue to be a key point of concern. The School District did permit tuition paid students for the 2005 school year, but the number of students taking advantage of this was small. In fiscal year 2005, the School District lost nearly \$173,000 to other districts for Rootstown students that choose to attend other districts through their open enrollment policy. In an effort to offset this loss, Rootstown Local Schools plans to implement an open enrollment policy to contiguous districts for fiscal year 2006. Special education and gifted funding have been reduced every year. The School District attempts to help compensate for some of these losses by applying for additional grant money. Our position is such that the School District does not qualify for many of the "needy" grants.

While a deficit was predicted on the five-year forecast for fiscal year 2006, the School District actually faced a deficit at the end of fiscal year 2005. Because the fiscal year cannot close with any fund in the red, it was necessary to obtain a Tax Anticipation Note. A note in the amount of \$750,000 was issued because a 5.9 mill, 5 year emergency levy was passed in February of 2005. The note was issued "in anticipation" of the collection of the new levy proceeds.

Because of House Bill 920 that was passed in the 70's, current levies do not provide inflationary revenue growth as valuation increases, with the exception of inside mills and new construction. Thus, as a School District dependent upon property tax and a decline in the State Foundation, the School District will need to request property tax increases to maintain a constant level of service.

The School District plans to implement additional cuts for the upcoming fiscal year to improve our overall financial stability.

The School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Karen Andrei, Treasurer of Rootstown Local School District, 4140 State Route 44, Rootstown, OH 44272.

Rootstown Local School District
Statement of Net Assets
June 30, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,281,154
Receivables:	
Taxes	4,238,118
Intergovernmental	38,344
Nondepreciable Capital Assets	779,700
Depreciable Capital Assets (Net)	1,121,135
<i>Total Assets</i>	7,458,451
Liabilities	
Accounts Payable	16,129
Accrued Wages and Benefits	1,034,878
Intergovernmental Payable	309,660
Deferred Revenue	3,769,607
Long Term Liabilities:	
Due Within One Year	121,747
Due Within More Than One Year	1,293,156
<i>Total Liabilities</i>	6,545,177
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,725,835
Restricted for:	
Capital Projects	484,691
Other Purposes	130,012
Unrestricted	(1,427,264)
<i>Total Net Assets</i>	\$ 913,274

See accompanying notes to the basic financial statements.

Rootstown Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 4,681,297	\$ 99,654	\$ 87,725	\$ (4,493,918)
Special	1,221,727	0	239,984	(981,743)
Vocational	404,085	0	0	(404,085)
Other	348,991	0	1,070	(347,921)
Support services:				
Pupils	479,270	0	9,715	(469,555)
Instructional staff	251,642	0	9,587	(242,055)
Board of education	17,815	0	0	(17,815)
Administration	767,145	0	16,613	(750,532)
Fiscal	342,232	0	272	(341,960)
Business	96,972	0	0	(96,972)
Operation and maintenance of plant	951,225	0	16,959	(934,266)
Pupil transportation	672,634	0	0	(672,634)
Central	18,249	0	0	(18,249)
Operation of non-instructional services	37,833	0	16,973	(20,860)
Food Service Operations	359,161	247,912	110,712	(537)
Uniform Supplies	15,602	18,193	0	2,591
Extracurricular activities	406,038	108,316	0	(297,722)
Interest and fiscal charges	11,338	0	0	(11,338)
<i>Total Governmental Activities</i>	<u>\$ 11,083,256</u>	<u>\$ 474,075</u>	<u>\$ 509,610</u>	<u>(10,099,571)</u>
General Revenues				
Property Taxes Levied for:				
General Purposes				3,984,708
Capital Outlay				298,081
Grants and Entitlements not Restricted to Specific Programs				5,028,488
Investment Earnings				19,726
Miscellaneous				85,612
Total General Revenues				9,416,615
Change in Net Assets				(682,956)
Net Assets Beginning of Year				1,596,230
Net Assets End of Year				<u>\$ 913,274</u>

See accompanying notes to the basic financial statements.

Rootstown Local School District
Balance Sheet
Governmental Funds
June 30, 2005

	General	Permanent Improvement Fund	Other Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 565,187	\$ 450,510	\$ 242,897
Receivables:			
Taxes	3,769,043	297,287	171,788
Interfund	23,826	0	0
Intergovernmental	14,533	0	23,811
Restricted Assets			
Equity in Pooled Cash and Cash Equivalents	22,560	0	0
<i>Total Assets</i>	<u>\$ 4,395,149</u>	<u>\$ 747,797</u>	<u>\$ 438,496</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	5,381	0	10,748
Accrued Wages and Benefits	976,116	0	58,762
Interfund Payable	16	0	23,810
Intergovernmental Payable	295,426	0	14,234
Deferred Revenue	3,494,625	272,428	156,871
<i>Total Liabilities</i>	4,771,564	272,428	264,425
Fund Balances			
Reserved for Encumbrances	5,875	0	44,906
Reserved for Tax Revenue Unavailable for Appropriation	274,418	24,859	14,917
Reserved for Capital Improvements	22,560	0	0
Unreserved:			
Undesignated, Reported in:			
General Fund	(679,268)	0	0
Special Revenue Funds	0	0	114,238
Capital Projects Funds	0	450,510	10
<i>Total Fund Balances</i>	<u>(376,415)</u>	<u>475,369</u>	<u>174,071</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 4,395,149</u>	<u>\$ 747,797</u>	<u>\$ 438,496</u>

See accompanying notes to the basic financial statements.

Rootstown Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets Governmental Activities
 June 30, 2005*

Total Governmental Funds	Total Governmental Fund Balances	\$ 273,025
	<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
\$ 1,258,594	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	1,900,835
4,238,118	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	
23,826	Delinquent Property Taxes	154,317
38,344	Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
22,560	General Obligation Debt	\$ (925,000)
\$ 5,581,442	Compensated Absences	(489,903) (1,414,903)
\$ 16,129	Net Assets of Governmental Activities	\$ 913,274
1,034,878		
23,826		
309,660		
3,923,924		
5,308,417		
50,781		
314,194		
22,560		
(679,268)		
114,238		
450,520		
273,025		
\$ 5,581,442		

See accompanying notes to the basic financial statements.

Rootstown Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Fiscal Year Ended June 30, 2005

	General	Permanent Improvement Fund	Other Governmental Funds
Revenues			
Taxes	\$ 3,774,569	\$ 296,730	\$ 173,007
Intergovernmental	4,983,145	34,108	520,845
Investment income	18,493	0	1,233
Tuition and fees	99,654	0	18,193
Extracurricular activities	0	0	108,316
Charges for services	0	0	247,912
Miscellaneous	9,363	8,810	67,439
<i>Total Revenues</i>	<u>8,885,224</u>	<u>339,648</u>	<u>1,136,945</u>
Expenditures			
Current:			
Instruction:			
Regular	4,141,078	65,790	260,137
Special	984,986	0	227,856
Vocational	400,865	0	0
Other	347,734	0	1,257
Support services:			
Pupils	465,910	0	10,563
Instructional staff	204,187	0	19,716
Board of education	17,815	0	0
Administration	718,444	472	41,484
Fiscal	331,123	4,352	2,507
Business	92,633	0	0
Operation and maintenance of plant	931,456	0	15,541
Pupil transportation	596,359	2,685	0
Central	15,917	0	0
Operation of non-instructional services	0	0	32,526
Food Service Operations	0	0	358,043
Uniform Supplies	0	0	15,602
Extracurricular activities	279,212	0	117,430
Capital outlay	0	95,349	0
Debt service:			
Principal retirement	0	0	80,000
Interest and fiscal charges	0	0	11,338
<i>Total Expenditures</i>	<u>9,527,719</u>	<u>168,648</u>	<u>1,194,000</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(642,495)	171,000	(57,055)
Other Financing Sources (Uses)			
Proceeds of debt issuance	750,000	0	0
Transfers in	0	0	91,338
Transfers out	(91,338)	0	0
<i>Total Financing Sources and (Uses)</i>	<u>658,662</u>	<u>0</u>	<u>91,338</u>
<i>Net Change in Fund Balance</i>	16,167	171,000	34,283
<i>Fund balance (deficit) at beginning of year (Restated-See Note 3)</i>	<u>(392,582)</u>	<u>304,369</u>	<u>139,788</u>
<i>Fund balance (deficit) at end of year</i>	<u>\$ (376,415)</u>	<u>\$ 475,369</u>	<u>\$ 174,071</u>

See accompanying notes to the basic financial statements.

Rootstown Local School District
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005

Total Governmental Funds	Net Change in Fund Balances - Total Governmental Funds	\$ 221,450
	<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
\$ 4,244,306	Governmental funds report capital outlays as expenditures,	
5,538,098	However, in the statement of activities, the cost of those	
19,726	assets is allocated over their estimated useful lives as	
117,847	depreciation expense. This is the amount by which	
108,316	depreciation exceeded capital outlay in the current period.	
247,912	Capital Asset Additions	\$ 15,089
85,612	Current Year Depreciation	<u>(230,122)</u>
		(215,033)
10,361,817	Revenues in the statement of activities that do not provide	
	current financial resources are not reported as revenues	
	in the funds	
	Delinquent Property Taxes	38,483
4,467,005	Repayment of bond principal is an expenditure in the governmental	
1,212,842	funds, but the repayment reduces long-term liabilities in the	
400,865	statement of net assets.	
348,991	Bond Principal	80,000
476,473	Some expenses reported in the statement of net activities do not	
223,903	use the current financial resources and therefore are not reported	
17,815	as expenditures in governmental funds.	
760,400	Compensated Absences	(57,856)
337,982		
92,633	The issuance of long term debt provides current financial resources to	
946,997	governmental funds. Governmental funds also report the effect of	
599,044	issuance costs, premiums, discounts, and similar items when debt	
15,917	is first issued whereas these amounts are deferred and amortized in	
32,526	the statement of activities.	
358,043	Proceeds of debt issuance	<u>(750,000)</u>
15,602		
396,642		
95,349	Change in Net Assets of Governmental Activities	<u>\$ (682,956)</u>
80,000		
11,338		
10,890,367		
(528,550)		
750,000		
91,338		
(91,338)		
750,000		
221,450		
51,575		
\$ 273,025		

See accompanying notes to the basic financial statements.

Rootstown Local School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 3,905,194	\$ 3,623,552	\$ 3,623,552	\$ 0
Intergovernmental	3,933,814	4,951,812	4,951,812	0
Investment Income	14,691	17,305	18,493	1,188
Tuition and Fees	79,167	99,654	99,654	0
Miscellaneous	29,543	26,179	26,163	(16)
<i>Total Revenues</i>	<u>7,962,409</u>	<u>8,718,502</u>	<u>8,719,674</u>	<u>1,172</u>
Expenditures				
Current				
Instruction	5,832,228	6,066,345	5,941,803	124,542
Support Services				
Pupils	445,548	456,036	454,250	1,786
Instructional Staff	193,274	211,968	197,049	14,919
Board of Education	17,474	21,188	17,815	3,373
Administration	698,290	735,756	713,203	22,553
Fiscal	312,181	327,474	318,281	9,193
Business	77,203	78,875	78,711	164
Operation and Maintenance of Plant	871,163	890,599	889,415	1,184
Pupil Transportation	568,162	599,168	583,490	15,678
Central	15,612	16,800	15,917	883
Extracurricular Activities	269,964	301,782	275,237	26,545
<i>Total Expenditures</i>	<u>9,301,099</u>	<u>9,705,991</u>	<u>9,485,171</u>	<u>220,820</u>
Excess of Revenues Over (Under) Expenditures	(1,338,690)	(987,489)	(765,497)	221,992
Other Financing Sources (Uses)				
Proceeds of Bonds	750,000	750,000	750,000	0
Refund of Prior Year Expenditures	880	880	880	0
Advances In	0	0	16	16
Advances Out	(23,826)	(23,826)	(23,826)	0
Transfers Out	(91,338)	(91,338)	(91,338)	0
<i>Total Other Financing Sources (Uses)</i>	<u>635,716</u>	<u>635,716</u>	<u>635,732</u>	<u>16</u>
<i>Net Change in Fund Balance</i>	(702,974)	(351,773)	(129,765)	222,008
<i>Fund Balance (Deficit) at Beginning of Year</i>	707,394	707,394	706,887	(507)
Prior Year Encumbrances Appropriated	(106,094)	(106,094)	(106,094)	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ (101,674)</u>	<u>\$ 249,527</u>	<u>\$ 471,028</u>	<u>\$ 221,501</u>

See accompanying notes to the basic financial statements.

This page intentionally left blank

Rootstown Local School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2005

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 89,824	\$ 17,020
Liabilities		
Undistributed Monies	0	17,020
<i>Total Liabilities</i>	0	\$ 17,020
Net Assets		
Held in Trust for Scholarships	89,824	
<i>Total Net Assets</i>	\$ 89,824	

See accompanying notes to the basic financial statements.

Rootstown Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust	
	Scholarship	
Additions		
Interest	\$ 1,856	
Miscellaneous	820	
Total	2,676	
Deductions		
Payments in accordance with trust agreement	6,000	
<i>Change in Net Assets</i>	(3,324)	
<i>Net Assets Beginning of Year</i>	93,148	
<i>Net Assets End of Year</i>	\$ 89,824	

See accompanying notes to the basic financial statements.

This page intentionally left blank

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Note 1 – Description of the School District

The Rootstown Local School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The School District operates under a locally-elected five member board form of government and provides educational services as authorized and mandated by state and federal agencies. Average daily membership on, or as of, October 1, 2004, was 1,302. The School District employs 97 certificated and 63 non-certificated employees.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service and student related activities.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes for the organization. The School District has no component units.

Management believes the financial statements included in the report represent all of the funds of the School District over which the School District has the ability to exercise direct operating control.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental type activities provided they do not conflict with or contradict GASB pronouncements. For the year ended June 30, 2005, the School District has implemented GASB Statement No. 40 "*Deposit and Investment Risk Disclosures*." The School District also implemented GASB Technical Bulletin 2004-02 "*Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*". There was no effect on beginning fund balance as a result of the implementation of GASB Statement No. 40. The most significant of the School District's accounting policies are described below.

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limitations. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are two categories of funds: governmental and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permanent Improvement Capital Projects Fund The permanent improvement capital projects fund accounts for financial resources to be used for the acquisition, construction, or improvement of major capital facilities.

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's fiduciary funds are private purpose trust-scholarship fund and an agency fund. The School District's agency fund accounts for student activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All non fiduciary assets and all liabilities associated with the operation of the School District are included on the statement of net assets.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Private purpose trust funds are reported using the economic resources measurement focus and are excluded from the Government-Wide Financial Statements. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

recognized in the fiscal year for which the taxes are levied. (See Note 7.) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On the governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the fund financial statements as intergovernmental revenue and an expenditure of food service operations. In addition, this amount is reported on the statement of activities as an expense with a like amount reported within the "operating grants and contributions" program revenue account.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which they related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool, except for certain trust fund monies that have been separately invested in a mutual fund. Individual fund integrity is maintained through School District records. Each funds' interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2005, other investments of the School District were limited to repurchase agreements and certificates of deposit. These nonparticipating investment contracts are reported at cost.

The School District has also invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2005. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2005.

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

For presentation on the financial statements, investments of the cash management pool and investments with maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$18,493, which includes \$8,048 assigned from other School District funds.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set aside for the purchase of textbooks and capital improvements. See Note 19 for additional information regarding set-asides.

G. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of fifteen hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 Years
Buildings and Improvements	10 - 50 Years
Furniture and Equipment	5 - 20 Years
Vehicles	8 Years
Library and Textbooks	6 Years

H. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

I. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. The liability includes the employees who are eligible to receive termination benefits and those the School District had identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements.

For the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

J. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

L. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

M. Interfund Activity

Transfers between governmental activities on the government-wide statements are eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. Throughout the fiscal year, the primary level of budgetary control was at the fund level. Budgetary modifications may only be made by resolution of the Board of Education.

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

Appropriations A temporary appropriations measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the legal level of control and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified. The total of expenditures and encumbrances may not exceed appropriations at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriation in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Note 3 – Restatement of Fund Balance

Based on guidance issued in GASB Technical Bulletin No. 2004-02 “*Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*”, it was determined that unpaid pension expenditures due at year-end should be recorded as a fund liability on the balance sheet. As a result, fund balances have been restated as follows:

	<u>General</u>	<u>Permanent Improvements</u>	<u>Other Governmental</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ (297,046)	\$ 304,369	\$ 145,516	\$ 152,839
Additon of intergovernmental payables	<u>(95,536)</u>	<u>0</u>	<u>(5,728)</u>	<u>(101,264)</u>
Restated Fund Balances, July 1, 2004	<u>\$ (392,582)</u>	<u>\$ 304,369</u>	<u>\$ 139,788</u>	<u>\$ 51,575</u>

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Note 4 – Fund Deficits

Fund balances and net assets at June 30, 2005 included the following individual fund deficits:

	Deficit	
	Fund Balance	Net Assets
General Fund	\$ 376,416	\$ 719,384
Nonmajor Governmental Funds:		
Title VI-B	1,940	0
Title II-A	6,796	0
Miscellaneous Federal Grants	516	516

The deficits in these governmental funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide transfers when cash is required, not when accruals occur.

Note 5 – Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, is presented for the general fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the general fund:

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$ 16,166
Net Adjustment for Revenue Accruals	(164,654)
Net Adjustment for Expenditure Accruals	29,353
Adjustment for Encumbrances	<u>(10,631)</u>
Budget Basis	<u>\$ (129,766)</u>

Note 6 – Deposits and Investments

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

1. United States Treasury bills, notes, bonds, or any other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements is the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of School District cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Cash on Hand At year end, the School District had \$100 in undeposited cash on hand which is included on the balance sheet of the School District as part of equity in pooled cash and cash equivalents.

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$369,220 and the bank balance was \$477,663. Of the bank balance:

1. \$106,031 was covered by federal depository insurance; and
2. \$371,632 was covered by collateral held by a qualified third party trustee not in the name of Rootstown Local School District.

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Investments

Investments are reported at fair value. As of June 30, 2005, the School District had the following investments:

	Fair Value	Investment Maturities (in months) 0-6
Repurchase Agreement	\$ 912,841	\$ 912,841
Mutual Funds	12,298	12,298
STAROhio	93,538	93,538
Totals	<u>\$1,018,677</u>	<u>\$1,018,677</u>

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the School District.

Credit Risk: The School District's investments at June 30, 2005 include repurchase agreements, mutual funds, and STAROhio which is rated AAAM by Standard & Poor's. The repurchase agreement and mutual fund account are not rated by Standard & Poor's or Moody's Investor Services.

Concentration of Credit Risk: The School District places no limit on the amount the School District may invest in any one issuer. More than 5 percent of the School District's investments are in STAROhio and repurchase agreements. These investments are 90% and 9%, respectively of the School District's total investments for the amounts listed above.

Note 7 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the school district fiscal year runs from July through June. First half tax collections are received by the school district in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Portage County. The Fiscal Officer periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005, was \$274,418 in the general fund, \$14,917 in the emergency fund, and \$24,859 in the permanent improvement capital projects fund.

On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$140,968,955	88.87 %	\$144,356,620	89.21 %
Public Utility Personal	31,000	0.02	30,760	0.02
Tangible Personal Property	<u>17,629,741</u>	<u>11.11</u>	<u>17,427,185</u>	<u>10.77</u>
Total	<u>\$158,629,696</u>	<u>100.00 %</u>	<u>\$161,814,565</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$57.15		\$57.18	

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Note 8 - Receivables

Receivables at June 30, 2005, consisted of taxes, intergovernmental grants and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. The intergovernmental receivable at June 30 consisted of excess cost tuition, state and federal grants of \$38,344.

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 6/30/2004	Additions	Reductions	Balance 6/30/2005
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 779,700	\$ 0	\$ 0	\$ 779,700
<i>Capital Assets, being depreciated:</i>				
Land Improvements	527,411	0	0	527,411
Building and Improvements	3,895,752	0	0	3,895,752
Furniture and Equipment	757,772	15,089	0	772,861
Vehicles	758,614	0	0	758,614
Library and Text Books	349,706	0	0	349,706
Total Capital Assets, being depreciated	6,289,255	15,089	0	6,304,344
Less Accumulated Depreciation:				
Land Improvements	(266,042)	(17,745)	0	(283,787)
Building and Improvements	(3,351,440)	(39,608)	0	(3,391,048)
Furniture and Equipment	(533,900)	(74,963)	0	(608,863)
Vehicles	(481,140)	(68,665)	0	(549,805)
Library and Text Books	(320,565)	(29,141)	0	(349,706)
Total Accumulated Depreciation	(4,953,087)	(230,122)	0	(5,183,209)
Total Capital Assets being depreciated, Net	1,336,168	(215,033)	0	1,121,135
Governmental Activities Capital Assets, Net	\$ 2,115,868	\$ (215,033)	\$ 0	\$ 1,900,835

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 111,293
Special	2,207
Support Services:	
Pupil	1,256
Instructional Staff	27,419
Administration	947
Fiscal	828
Operation and Maintenance of Plant	531
Pupil Transportation	73,287
Central	2,332
Operation of non instructional	5,307
Extracurricular Activities	4,715
	<hr/>
Total Depreciation	<u>\$ 230,122</u>

Note 10 – Risk Management

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. There has been no reduction in insurance coverage from the prior year. There also has been no settlements paid in excess of insurance coverage in the past three years.

A. Property and Liability

The School District has a property and fleet insurance policy through Indiana Insurance. The deductibles for the property insurance are \$2,500. The deductibles for the fleet insurance vary from \$500 to \$1,000 depending on the incident. The School District also holds a liability insurance policy with Harcum-Hyre Insurance Agency. The deductibles here range from \$0 to \$2,500. The board president and superintendent have a \$30,000 position bond with Nationwide Insurance. The treasurer is covered under a surety bond in the amount of \$300,000.

B. Workers' Compensation

The School District pays the State Workers' Compensation system a premium based on a rate of \$1.42 per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

C. Employee Medical Benefits

Medical and prescription coverage is provided as a Comprehensive Major Medical program through Benefit Services, Inc. Monthly family premiums are \$909.19 for Administrative and Certified Staff and \$848.01 for Classified Staff. Monthly single premiums are \$369.43 for Administrative and Certified Staff and \$345.05 for Classified Staff.

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Dental coverage is provided as a Comprehensive Major Medical plan through Benefit Services, Inc. Monthly premiums are \$82.11 for family coverage and \$34.03 for single coverage.

Note 11 - Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$149,603, \$215,364, and \$196,212 respectively; 53 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$70,313 represents the unpaid contributions for fiscal year 2005, and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$619,767, \$640,883, and \$571,272 respectively; 83 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$4,704 made by the School District and \$5,488 made by the plan members. \$105,360 represents the unpaid contribution for fiscal year 2005, and is recorded as a liability within the respective funds.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, all members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 12 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate; currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$47,654 during the 2005 fiscal year.

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, the health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$71,326.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. Health care benefits are financed on a pay-as-you-go basis. Net health care costs for year ending June 30, 2005 were \$178,221,113. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient into long term, to provide for a health care reserve equal to at least 150 percent or estimated annual net claim costs. SERS had approximately 58,123 participants currently receiving health care benefits.

Note 13 – Other Employee Benefits

A. Life Insurance

The School District provides term life insurance to employees through Benefit Services, Inc. in the amount of \$20,000 for all eligible employees. Term life insurance is provided for Administrative Staff based upon double the employee's annual salary and the premium is \$.19 per \$100 of salaries and an additional \$3.40 per month. Term life insurance is provided for the nine-month Certified Staff at a monthly rate of \$3.40 per employee. Term life insurance is provided for Classified Staff that meet the nine-month contract and twenty or more hours per week requirement at a monthly rate of \$ 3.40.

B. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and Administrators, who are contracted to work no less than 12 months, earn 10 to 20 days of vacation per year depending upon length of service. Teachers and Administrators who work less than 12 months do not earn vacation time.

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Teachers, Administrators, and Classified employees earn sick leave at a rate of one and one-quarter days per month cumulated without limit. Upon retirement, Certified and Classified employees with 10 years or more of service to the School District may receive thirty percent of accrued and unused sick leave, to a maximum of forty days.

C. Special Termination Benefits

Certified employees meeting the requirements included in the negotiated agreement, and the provision of the retirement system, receive a salary incentive when they retire from active service in the amount of \$10,000.00.

Eligibility requirement for participation in this program:

1. The employee must be eligible for retirement and retire by August first of each year
2. The employee must have 10 or more full years of continuous service with the School District.
3. The employee must submit a request at least 30 days prior to the date of retirement.
4. The employee must be eligible by the retirement system standards and must retire by August first in the year in which the employee achieves 30 years' service credit for retirement purposes. After that time, the employee would be ineligible for the retirement incentive plan.

Note 14 - Long - Term Obligations

The changes in the School District's long-term obligations during the year consist of the following:

	<u>Outstanding 6/30/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 6/30/2005</u>	<u>Amounts Due in One Year</u>
Governmental Activities:					
General Obligation Debt:					
1996 Energy Conservation 5.6%	\$ 255,000	\$ 0	\$ 80,000	\$ 175,000	\$ 85,000
2005 Tax Anticipation Note 4.21%	<u>0</u>	<u>750,000</u>	<u>0</u>	<u>750,000</u>	<u>0</u>
Total General Obligation Debt	255,000	750,000	80,000	925,000	85,000
Compensated Absences	<u>432,047</u>	<u>91,668</u>	<u>33,812</u>	<u>489,903</u>	<u>36,747</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 687,047</u>	<u>\$ 841,668</u>	<u>\$ 113,812</u>	<u>\$ 1,414,903</u>	<u>\$ 121,747</u>

In 1996, the School District issued a total of \$700,000 in general obligation bonds for energy conservation in the district. The bonds mature in 2006.

In 2005, the School District issued a total of \$750,000 in tax anticipation notes for the emergency requirements of the School District. The notes mature in 2010.

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

General obligation bonds and tax anticipation notes will be paid from the debt service fund. Compensated absences will be paid from the general fund and respective funds.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2005 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Energy Conservation</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2006	\$ 85,000	\$ 7,046	\$ 92,046
2007	90,000	2,408	92,408
	<u>\$ 175,000</u>	<u>\$ 9,454</u>	<u>\$ 184,454</u>

<u>Fiscal Year Ending June 30,</u>	<u>Tax Anticipation Notes</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2006	\$ 0	\$ 29,045	\$ 29,045
2007	150,000	28,431	178,431
2008	150,000	22,113	172,113
2009	150,000	15,795	165,795
2010	150,000	9,477	159,477
2011	150,000	3,159	153,159
	<u>\$ 750,000</u>	<u>\$ 108,020</u>	<u>\$ 858,020</u>

Note 15 – Deferred Revenue

Deferred revenue consisted of the following:

	<u>Statement of Net Assets</u>	<u>Balance Sheet</u>
Property Taxes Receivable	\$ 3,769,607	\$ 3,923,924

Note 16 - Interfund Transfers

The transfer made during fiscal year 2005 was \$91,338 to the debt service fund from the general fund. This transfer was made to move unrestricted balances to fund the current debt service obligation.

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Note 17 - Jointly Governed Organizations

The Stark Portage Area Computer Consortium (SPARCC) is a jointly governed organization comprised of 28 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports SPARCC based upon a per pupil charge dependent upon the software package utilized. The SPARCC assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. SPARCC is governed by a board of directors chosen from the general membership of the SPARCC assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county in which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Stark County Education Services Center, which serves as fiscal agent, located at 2100 38th Street, NW, Canton, Ohio 44709. During the year ended June 30, 2005, the School District paid \$19,119 to SPARCC for basic service charges.

Note 18- Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at year end.

B. Litigation

The School District is party to legal proceedings. The School District is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition the School District.

C. School Funding

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "the Ohio General Assembly to enact a school funding scheme that is thorough and efficient".

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

ROOTSTOWN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Note 19 - Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

	Capital Improvement Reserve	Textbook Instructional Materials Reserve	Totals
Set-Aside Carryover Balance as of June 30, 2004	\$ 0	\$ (117,215)	\$ (117,215)
Current Year Set-Aside Requirement	183,237	183,237	366,474
Qualifying Disbursements	<u>(160,677)</u>	<u>(164,254)</u>	<u>(324,931)</u>
Total	<u>\$ 22,560</u>	<u>\$ (98,232)</u>	<u>\$ (75,672)</u>
Balance Carried Forward to FY 2006	<u>\$ 0</u>	<u>\$ (98,232)</u>	<u>\$ (98,232)</u>

The School District had qualifying disbursements during the year that reduced the textbook reserve set-asides below zero. These extra amounts may be used to reduce the set-aside requirement in future fiscal years.

Note 20- Interfund Balances

Interfund balances at June 30, 2005 consisted of the following:

	Interfund Receivable	Interfund Payable
General Fund	\$ 23,826	\$ 0
Special Rotary Fund	0	16
Ohio Reads	0	8,400
Student Intervention	0	5,706
Access Grant	0	2,904
Title II-A	0	6,795
Title II-D	0	5
Totals	<u>\$ 23,826</u>	<u>\$ 23,826</u>

Interfund receivables and payables resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2005, all interfund payables outstanding are anticipated to be repaid in fiscal year 2006.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education
Rootstown Local School District
4140 State Route 44
Rootstown, OH 44272

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Rootstown Local School District (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON

COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)

We noted certain matters that we reported to management of the District in a separate letter dated May 8, 2006.

This report is intended solely for the information and use of management and the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

May 8, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

ROOTSTOWN LOCAL SCHOOL DISTRICT

PORTAGE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 17, 2006**